The Student Aid and Fiscal Responsibility Act

A Landmark Investment in America's Economic Future

THE ECONOMIC BENEFITS OF STUDENT LOAN REFORM: MAINTAINING JOBS, STRENGTHENING OUR COMPETITIVENESS

Investing in education is one of the most important things we can do to grow and strengthen our economy. Expanding access to higher education is essential not just to building a competitive workforce, but also for raising living standards. Workers with a college degree earn at least 60 percent more than workers with only a high school diploma – and are more likely to have good health care and retirement benefits. While American workers over 55 continue to lead the world in percentage of college graduates, young U.S. workers now rank 11th – meaning 10 countries have overtaken us in the past generation. Education is – and must be – an economic priority.

Despite this, some critics of the Student Aid and Fiscal Responsibility Act, H.R. 3221, are making exaggerated claims that student loan reform will lead to substantial job losses or somehow hurt local economies. Here are many important facts they overlook:

Industry Claims about Job Loss Are Simply Not Credible

- **Sallie Mae Has Changed Its Tune as Legislation Advances:** According to an Indiana newspaper, "Sallie Mae told The Star Press in March that it didn't expect the federal reform effort to adversely affect the lender's operations. But in recent weeks, Sallie Mae has begun a campaign to win support for its proposed alternatives."[i]

- **Industry Leader Admitted that True Impact Is Unknown:** According to *Rolling Stone*, "Lenders claim that Obama's plan will imperil 35,000 private sector jobs. But when pressed, [Nelnet president Jeff] Noordhoek concedes that the industry's number includes tens of thousands of jobs that will be preserved under Obama's plan. So what's the true number of jobs that will be lost? 'I couldn't give you an exact number,' he says. 'Ballpark? A third? Maybe higher?'"[ii]

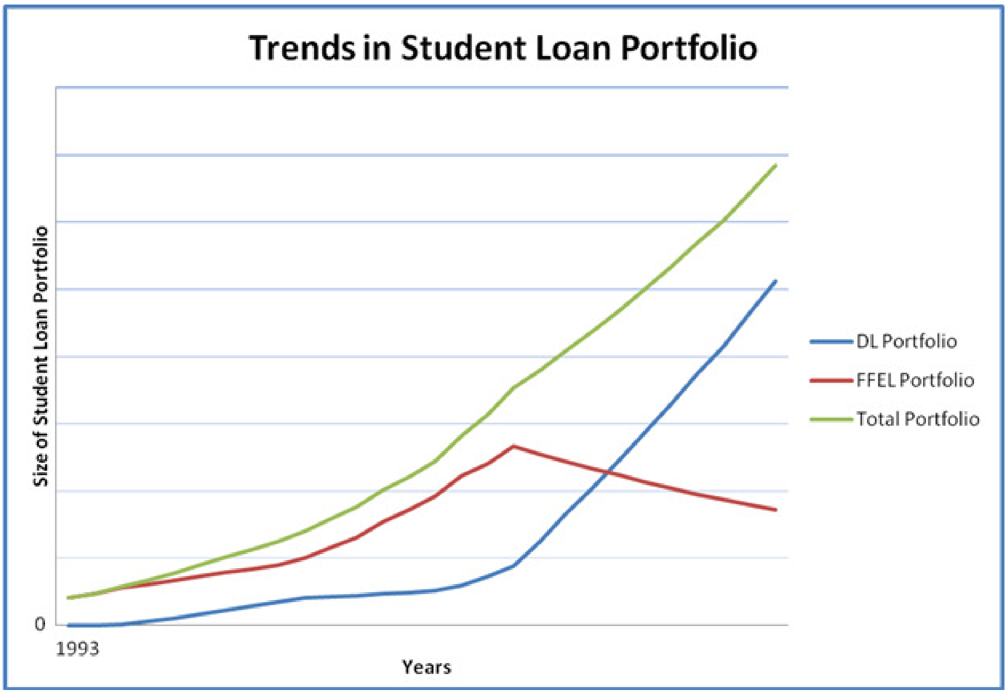
- **Independent Analysis: Net Impact Could Be Positive or Negative.** Lenders claim that the legislation would "result in the loss of over 35,000 U.S. jobs."[iii] But according to the independent industry publication *Student Lending Analytics*, "the number of U.S. based jobs related to federal student loans is likely to range from a net increase of 300 jobs to a net loss of 4,750 over the next several years."[iv]

Private Sector Servicing of Federal Student Loans Will Grow, *Maintaining* Jobs

- **Federal Loan Volume Is Expanding:** The existing portfolio of guaranteed loans will continue to provide work and income to loan holders and collection companies for years to come. There are $400 billion in guaranteed student loans outstanding, and these loans have repayment terms of up to 25 years. Continued growth in loan volume means additional servicing jobs.

- Moreover, many lenders participate in the private student loan market – a market that is not affected at all by this legislation.

- **All Student Loans Will Be Collected by Private Companies and Nonprofits:** All student loans will still be handled by private-sector companies. The Department of Education pays a private company, Accenture, to deliver all new direct student loans to students and recently hired through a rigorous selection process four of the largest student lenders – Sallie Mae, Nelnet, PHEAA, and Great Lakes – to collect all the loans. All new student loans will be handled by a private company or nonprofit.



- **Added Jobs for U.S. Workers that Won't Be Shipped Overseas:** Unlike in the federally-guaranteed student loan program, loans made through the Direct Loan program are federal assets, and are prohibited by law from being handled by foreign nationals. Due to requirements for personnel background checks and information security, Sallie Mae was unlikely to win the direct loan contract unless it returned jobs to the United States, according to a Department of Education spokesman

- **Companies Can Earn More Work through Quality Performance:** Through competitive, performance-based contracts, the Department will provide additional work to the best-performing companies. Companies that provide quality service will grow and become more profitable. This is in contrast to the politically-set entitlements that lenders and intermediaries receive in the FFEL program. After Sallie Mae and Nelnet won contracts, their stocks surged and a Wall Street analyst concluded that "This will prove to be a meaningful source of growth for both Sallie Mae and Nelnet over the years to come."

- **Non-Profit Lenders Protected:** The legislation is designed to reduce the impact on jobs at non-profit and state student loan agencies, which will be given every opportunity to win direct loan contracts.

- **Guaranty Agencies Will Receive a New Source of Federal Support:** Most guaranteed loan volume is now being made through the emergency authority created by the Ensuring Continued Access to Student Loans Act, a procedure that generates no revenue for guarantee agencies. Under H.R. 3221, these agencies will have opportunities to receive resources for their work in access, completion, and default aversion.

Colleges and Universities are engines of state and local economies

- **States and communities across the country rely heavily on the income and benefits derived from colleges and universities.** College and universities create jobs, support taxes and generate spending on goods and services. Increasing the Pell Grant scholarship and other forms of aid will help more students stay in college, and more new students enroll in college – which in turn will help colleges and universities keep more jobs on the payroll and continue to serve as local economic engines.

A college degree leads to higher wages, benefits and greater financial security

- **A college degree is still the best pathway to the middle class for all racial and ethnic groups, men and women.** According to a 2007 study by the College Board, college graduates earn 60 percent more over their lifetime than high school graduates; are 70 percent more likely to receive a pension from their employer; and are more likely to have employer-provided health insurance. A college degree yields higher incomes and greater purchasing power, which in turn inject more spending and tax revenue directly into the economy. These are all key ingredients for a sustainable economic recovery.

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[i] http://www.thestarpress.com/article/20090819/NEWS01/908190310

[ii] http://studentlendinganalytics.typepad.com/files/rollingstone-080609.pdf

[iii] http://www.efc.org/cs/root/about_efc/about_efc

[iv] http://studentlendinganalytics.typepad.com/student_lending_analytics/2009/08/sallie-mae-using-jobs-issue-to-build-support-for-their-federal-loan-proposal-sla-takes-a-stab-at-exp.html